

CLAIMS

What is claimed is:

1. A method for calculating the optimum value of an intellectual asset comprising the steps of:

- a. determining the contribution to profit of intangible assets;
- b. deleting the contribution of assets other than intellectual assets from this contribution;

- c. deriving a base royalty rate from the difference.

2. The method of claim 1, wherein the contribution to profit of intangible assets is based on publicly available information or private company information.

3. The method of claim 1, wherein the contribution to profit of intangible assets is based on an industry average (or median).

4. The method of claim 1, wherein the contribution to profit of intangible assets is calculated by first calculating the weighted average of cost of capital.

5. The method of claim 4, wherein the weighted average of cost of capital (WACC) is derived, using the following formula:

$$WACC = E(R_i) + D(R_i) = R_f + \beta \times E(R_p) + i \times (1 - t)$$

where

$E(R_i)$ = expected rate of return for equity investors

$D(R_i)$ = expected rate of return for debt investors

R_f = risk free rate of return

β = beta or systematic risk

$E(R_p)$ = expected risk premium

i = interest rate on debt

t = effective federal and state tax rate.

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6. The method of claim 4, wherein the weighted average of cost of capital (WACC) is inserted into the following formula:

$$WACC = \frac{V_m}{V_{bev}} R_m + \frac{V_t}{V_{bev}} R_t + \frac{V_i}{V_{bev}} R_i$$

where

R_m is the return on monetary assets,

R_t is the return on tangible assets,

R_i is the return on intangible assets,

V_m , V_t , and V_i are the fair market values of the monetary, tangible, and intangible assets, respectively, and

V_{bev} is the fair market value of the business enterprise, which is the total of V_m , V_t , and V_i .

7. The method of claim 6, wherein the weighted return on intangible assets is R_{iw} , and is calculated as:

$$R_{iw} = \frac{V_i}{V_{bev}} R_i = WACC - \frac{V_m}{V_{bev}} R_m - \frac{V_t}{V_{bev}} R_t.$$

8. The method of claim 6, wherein the unweighted return on intangible assets is R_i , and is calculated as:

$$R_i = \frac{WACC - \frac{V_m}{V_{bev}} R_m - \frac{V_t}{V_{bev}} R_t}{\frac{V_i}{V_{bev}}}.$$

9. The method of claim 7, the contribution to profits of intangible assets (CPIA) is calculated based on debt free net income, which is expressed as:

$$DFNI: DFNI = NI + InterestExpense(1 - tax),$$

and wherein the CPIA is express as a percentage, as follows:

$$CPIA = \frac{\frac{R_{iw}}{WACC} DFNI}{Sales}.$$

10. The method of claim 1, wherein the contribution to profit of intellectual assets (CPIPIA) is calculated by subtracting the industry average (or median) distributor CPIA from the CPIA value for a given firm.

11. The method of claim 1, wherein the contribution to profit of intellectual assets (CPIPIA) is calculated by subtracting the industry average (or median) distributor CPIA from the average (or median) manufacturer CPIA value for a given industry.